

POLYCom

SYSTEMS LIMITED

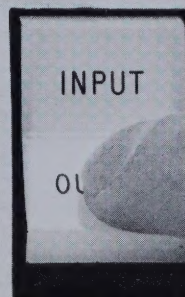
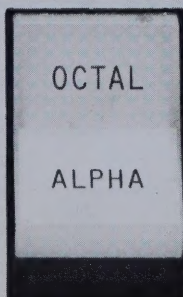
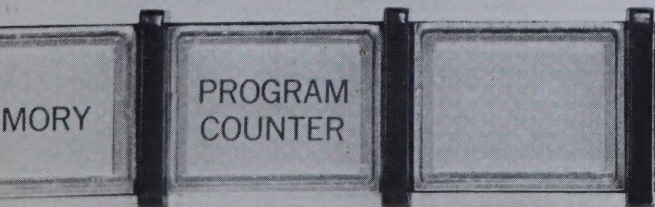
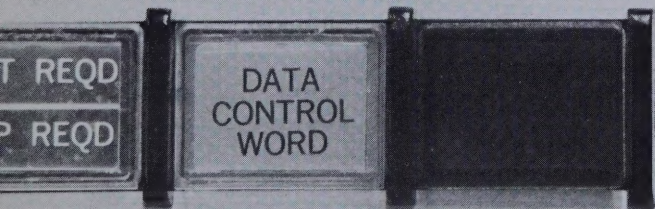
annual report 1972

COMPUTER CONTROL



LOAD
CHANNEL

TYPEWRITER CONTROL



OU



DIRECTORS:

J. Philip Humfrey
President, PolyCom Systems Limited

Michael J. Needham
Vice-President, Helix Investments Limited

Albert B. Ormsby
Treasurer, Anmercosa Ventures Limited

Frederick B. Rich
Vice-President, PolyCom Systems Limited

Gerald J. Risby
*Vice President-Treasurer and Director
Anglo American Corporation of Canada Limited*

Robert L. Shirriff
*Partner, Fasken & Calvin
Barristers & Solicitors*

Donald C. Webster
President, Helix Investments Limited

OFFICERS:

Donald C. Webster
Chairman of the Board

J. Philip Humfrey
President

Frederick B. Rich
Vice-President and Treasurer

Sudhakar Gupta
Vice-President, Operations

Robert L. Shirriff
Secretary

AUDITORS:

Deloitte, Haskins & Sells

REGISTRAR AND TRANSFER AGENT:

Royal Trust Company



To the Shareholders:



Significant progress was made by your Company during the year under review. PolyCom's total revenue for the year ended September 30, 1972 increased to \$1,288,164, up 26% from \$1,014,933 for the corresponding period a year earlier; net income was \$116,399 compared with \$17,816 for the previous fiscal year; and earnings per common share, using the weighted average number of shares outstanding during the year and after deducting dividends on the preference shares, were equal to 15¢, after extraordinary items, compared with 3¢ the previous year.

In June, 1972 the Company made a public offering of treasury shares which realized a net amount of \$819,000, of which sum \$530,000 has been utilized since the year-end to purchase a second Honeywell G440 computer system. The remaining funds were added to working capital, which was further augmented by cash flow from operations amounting to \$286,596.

PolyCom's strong financial position together with the second computer system, which has more than doubled the Company's revenue-producing capability, provides a good base for increased penetration into the Canadian market for information-processing services. Installation of the second computer system has created the

flexibility to take continuous advantage of new technology for maintaining and upgrading the system without disrupting service to clients and will enable more effective utilization of existing programmes and past development work.

Some time ago, it was decided that operations of the Company and its subsidiaries should be centralized in one location and the move was timed to coincide with installation of the second computer system. This enabled the Company to provide uninterrupted service to its clients during the period of installation and will achieve cost benefits. The two computer systems are now operational and the Company's offices and staff are now located at 133 Wynford Drive, Don Mills, Ontario.

Since PolyCom commenced operations in 1969 there has been an ever-increasing interest in, and demand for, remote computer services of the type provided by your Company. After two years of study, the Federal Government has released its report on the Canadian Computer/Communications Industry and this report predicts that during the 1970's, the computer services industry will be among the fastest growing segments of the computer industry as a whole.

During the year, your Company has been able to create progressively more useful and sophisticated computer programmes, as well as increasing the speed, efficiency and capacity of its computer equipment. These programmes and the techniques employed by their use have led to the development of a number of applications which provide customers with new ways to handle old problems and to the development of methods which open other avenues of use, profitable both to the customer and to your Company. These achievements have helped PolyCom to attain its growth and remain competitive within the industry.

The Data Security Division of the Company is now well established.

Industry generally is becoming increasingly aware of the need for protection of corporate and computer-generated data and more and more companies are utilizing the services this division provides. Plans to expand the sales of the division are being implemented and we anticipate steady growth in this area during the current year.

The two subsidiary companies, PolyVen Management Limited and Cooper Key punch Services Limited, have continued to contribute to the growth of your Company during the past year. Cooper Key punch Services Limited has been particularly successful, achieving a 70% increase in revenues in the latest fiscal period. Further growth is expected during the current year as both companies continue to increase their customer base.

At the outset, PolyCom established its basic goal of technical leadership and customer service coupled with conservative financial management. Consistent striving toward these goals is now being rewarded and it is expected that 1973 will see continuing progress and wider recognition of, and demand for, the services your Company is able to offer.

Appreciation is expressed to all employees for their enthusiastic support which has made possible the Company's success.

J. P. Humfrey, President

November 13, 1972

A team of experts

PolyCom Systems Limited has an experienced staff ranging from computer systems experts to machine operators, who can match the specific information-processing requirements of customers to one of the most advanced time-sharing systems available in Canada.

PolyCom's computer professionals have both sophisticated academic knowledge and practical experience in all facets of computer systems and techniques. They are thoroughly familiar with the capabilities of computers in business and bring to each problem a broad experience in mathematics, statistics, operations research, engineering and business administration.



What Time-Sharing means

Time-Sharing is a non-technical breakthrough in a technological age which makes a million-dollar computer as easy to use as a typewriter, as convenient as an adding machine, as accessible as a slide rule.

In Time-Sharing you talk to a computer in abbreviated words and numbers using a teletype unit and a simple language which is very easy to learn and use. In Time-Sharing you talk to the computer and it talks back to you — immediately. This makes it conversational.

Working with a conversational computer is an enormous advantage. You work on the programme together. You can stop, change and restart data input at any time you wish. If an answer is not what you hoped for, simply change a step in your programme, then try again. You and the computer work it out together. It takes very little time.

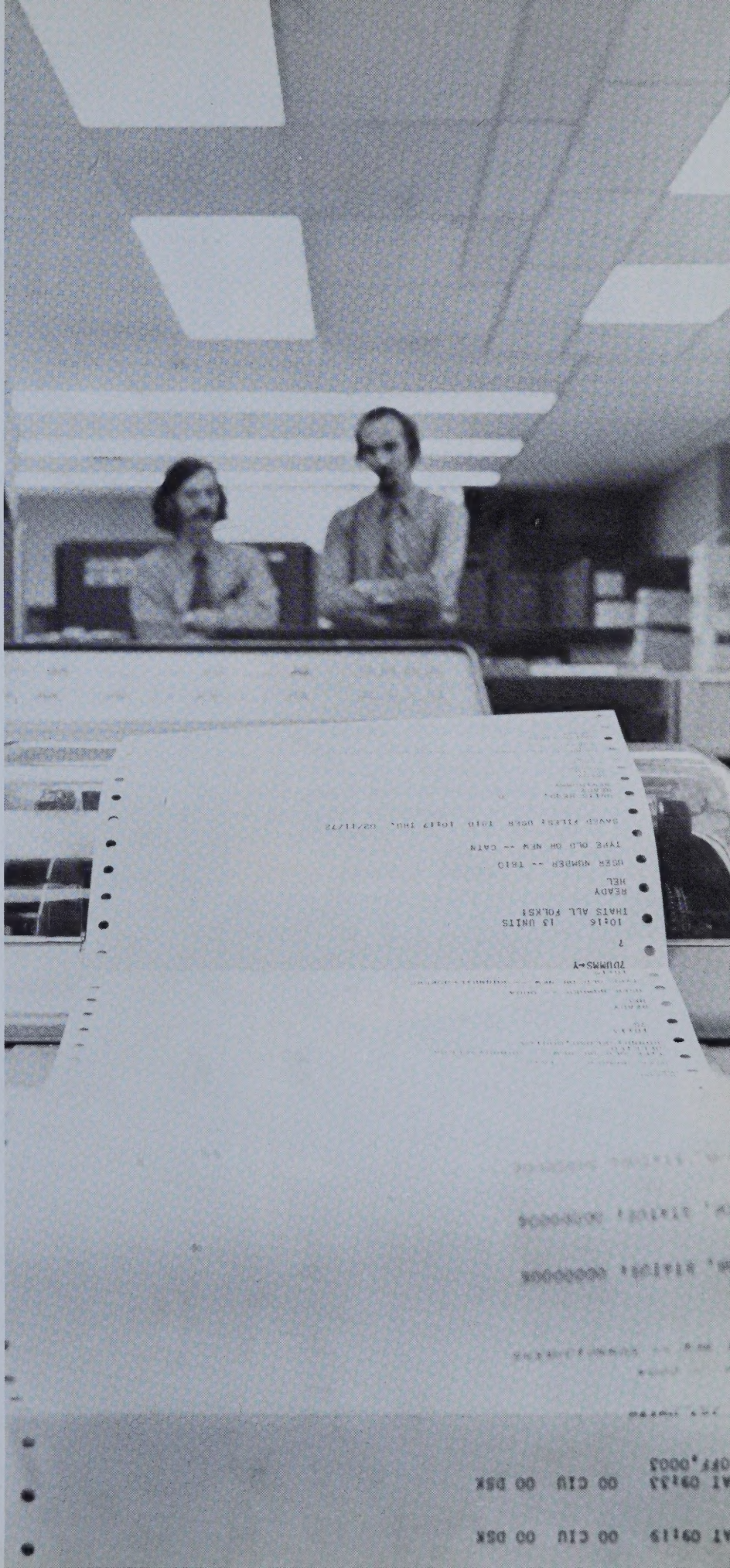
Ask your computer as many questions as you like. It gives you the answers. Give it problems and it gives you solutions. Make a mistake or leave something out and it tells you about it — instantly.

All this time you are in your office and the computer is somewhere else. You could be a few blocks away or you might even be in Vancouver, Ottawa or Montreal.

It does not matter where you are because in Time-Sharing you are connected to the computer system through telephone lines for instant, conversational communication.

What makes it all possible, of course, is the fact that many people can use the same computer at the same time. Because it can work out problems in milliseconds, a single computer can handle dozens of problems almost simultaneously. In fact a computer can switch from one user to another so fast that each subscriber gets the feeling that he has the entire computer to himself.

PolyCom Time-Sharing makes computer power immediately accessible, functionally useful and economically feasible for engineers, manufacturers, scientists, educators, statisticians and business executives.



Total Information- Processing Services

PolyCom Systems Limited offers complete and advanced information-processing services to its many customers.

The PolyCom family should not be regarded as merely "a data centre". It is much more. PolyCom has developed as an information-processing company that is equipped to provide a total service to business and industry.

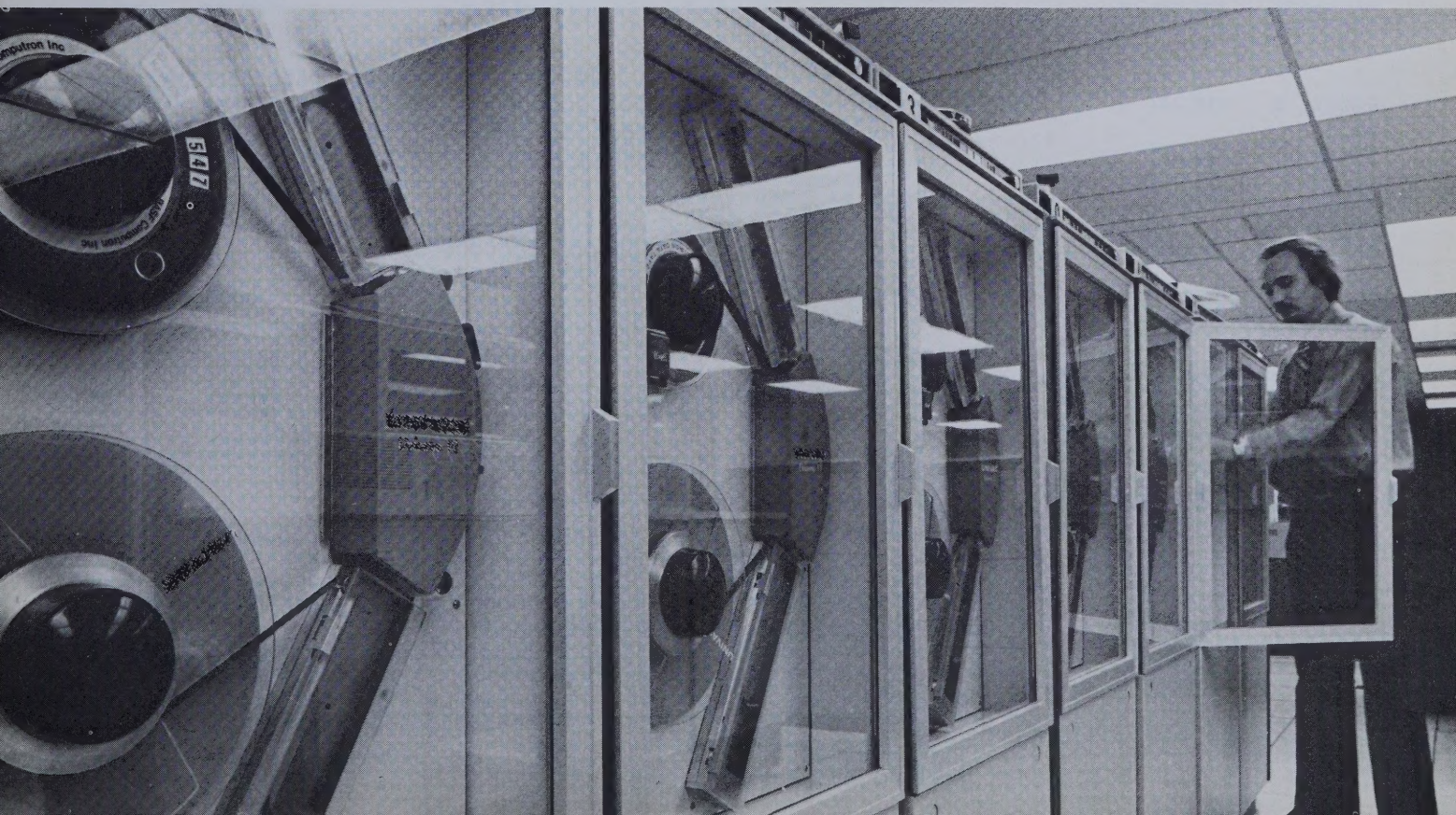
The Data Security Division offers safe storage and protection facilities to organizations which have data that is vital to their computer operations stored on magnetic discs and tapes. Data Security's facilities are located in a company-owned building specially designed for maximum security. The safety devices in the building include an automatically controlled foamite fire protection system, the ionization detection equipment located throughout the building and the burglar protection system consisting of a variety of the latest electronic detection devices. The building's indoor environment is rigidly controlled at a temperature range of 70 deg. — 75 deg. F. and a humidity range of 40% — 50% to prevent deterioration of materials in storage.





Batch-processing services, the more traditional use of computers, are provided by PolyVen Management Limited. Batch-processing handles one problem at a time and serves customers consecutively in accordance with their respective priorities. The customer may either deliver his data to the computer at PolyCom's offices or use the remote job entry method of communicating with the computer by means of a small terminal computer which transmits the data over leased telephone lines.

Keypunch services shown above are provided by Cooper Keypunch Services Limited. Keypunching is a method of recording data for eventual automated processing. Equipped with the finest and most up-to-date preparation equipment, which can be operated 24 hours a day seven days a week, Cooper complements an integrated production team at one location working together to ensure optimal job processing, quality control and service.





POLYCOM SYSTEMS LIMITED AND SUBSIDIARIES

(Under The Business Corporations Act, (Ontario))

CONSOLIDATED BALANCE SHEET SEPTEMBER 30, 1972 (WITH COMPARATIVE FIGURES At September 30, 1971)

ASSETS		1972	1971
Current Assets:			
Cash		\$ 76,342	\$ 6,888
Deposit receipt		700,000	100,000
Accounts receivable		169,952	230,206
Notes receivable		—	40,000
Inventory—at cost		18,196	—
Prepaid expenses		24,759	15,464
Total current assets		989,249	392,558
Investments and Advances:			
Equity Control Limited (Note 1)—Shares at cost (\$1000 and Notes Receivable		25,000	25,000
Sundry Advances		35,000	—
Total investments and advances		60,000	25,000
Land, Building and Equipment—at cost (Note 2)		1,498,266	1,226,440
Less accumulated depreciation and amortization		276,982	106,785
Net land, building and equipment		1,221,284	1,119,655
Goodwill—at cost		45,278	28,380
Total		\$2,315,811	\$1,565,593

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:			
Accounts payable and accrued charges		\$ 48,617	\$ 51,683
Rentals received in advance		18,592	15,536
Long-term debt due within one year (Note 3)		138,988	138,908
Notes payable to shareholders (Note 4)		—	60,000
Total current liabilities		206,197	266,127
Long-Term Debt (Note 3)		524,514	666,357
Shareholders' Equity:			
Capital stock (Note 4)			
Authorized:			
300,000 preference shares with a \$5.00 par value issuable in series 1,000,000 common shares of no par value			
Issued and fully paid:			
140,000 7½% cumulative redeemable, convertible preference shares with a \$5.00 par value, Series A		700,000	—
699,808 common shares (1971—631,154)		1,954,517	1,694,228
Deficit		1,069,417	1,061,119
Net shareholders' equity		1,585,100	633,109
Total		\$2,315,811	\$1,565,593

Approved by the Board:

ALBERT B. ORMSBY, Director

FREDERICK B. RICH, Director

Auditors' Report

To the Shareholders of PolyCom Systems Limited:

We have examined the consolidated balance sheet of PolyCom Systems Limited and subsidiaries as at September 30, 1972 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 3, 1972.

DELOITTE, HASKINS & SELLS
Chartered Accountants.

**CONSOLIDATED STATEMENT
OF INCOME**
FOR THE YEAR ENDED
SEPTEMBER 30, 1972
(With Comparative Figures For 1971)

	1972	1971
Revenue	\$1,288,164	\$1,014,933
Expenses	1,094,483	978,581
Income from Operations	193,681	36,352
Other Expenses:		
Unused Facility	28,370	—
Interest Expense, Net of Income (Note 3)	48,912	38,334
Loss on Sale of Equipment	—	5,204
	77,282	43,538
Income (Loss) Before Income Taxes And Extraordinary Credits	116,399	(7,186)
Income Taxes	72,600	—
Income (Loss) Before Extraordinary Credits	43,799	(7,186)
Extraordinary Credits:		
Elimination of income taxes by application of prior years tax losses	72,600	—
Return of investment in subsidiary company	—	16,110
Realization on chattel mortgage	—	8,892
	72,600	25,002
Net Income For the Year	\$ 116,399	\$ 17,816

**CONSOLIDATED STATEMENT
OF DEFICIT**
FOR THE YEAR ENDED
SEPTEMBER 30, 1972
(With Comparative Figures For 1971)

Deficit at Beginning of the Year	\$1,061,119	\$1,078,935
Add:		
Cost of Financing (Note 4)	111,141	—
Dividend on Preference Shares	13,556	—
	1,185,816	1,078,935
Deduct:		
Net Income for Year	116,399	17,816
Deficit At End of the Year	\$1,069,417	\$1,061,119

**CONSOLIDATED STATEMENT
OF SOURCE AND APPLICATION
OF FUNDS**
FOR THE YEAR ENDED
SEPTEMBER 30, 1972
(With Comparative Figures For 1971)

Funds Provided:		
Net income for the year	\$ 116,399	\$ 17,816
Loss on sale of equipment	—	5,204
Depreciation and amortization	170,197	84,851
Total funds provided from operations	286,596	107,871
Computer purchase agreement	—	745,500
Issue of shares	960,289	420,000
Sale of equipment	—	1,550
Total funds provided	1,246,885	1,274,921
Funds Applied:		
Advances	35,000	—
Goodwill purchased	16,898	—
Dividends	13,556	—
Additions to land, building and equipment	271,826	854,137
Cost of financing	111,141	—
Reduction in long-term debt	141,843	242,232
Total funds applied	590,264	1,096,369
Increase in Working Capital During the Year	656,621	178,552
Working Capital (Deficiency) at Beginning of the Year	126,431	(52,121)
Working Capital at End of the Year	\$ 783,052	\$ 126,431

The accompanying notes are an integral
part of the financial statements.



Notes to the Consolidated Financial Statements September 30, 1972

1. Principles of Consolidation

The consolidated financial statements include the accounts of the following wholly-owned subsidiaries:

Cooper Key punch Services Limited
PolyVen Management Limited
National Library Resources Limited (acquired August 1, 1972)

The accounts of Equity Control Limited (50% owned), are not included in the consolidated financial statements. Audited financial statements of Equity Control Limited as at September 30, 1972, disclose that the company's investment therein exceeded its share of the net assets of this company by \$22,371. The company's share of the losses in Equity Control Limited for the periods from acquisition October 10, 1969, is \$22,371 of which \$6,643 relates to the current year.

2. Land, Building and Equipment

The major categories of land, building and equipment and accumulated depreciation and amortization are as follows:

	1972	1971	Rates
Land.....	\$ 50,725	\$ 50,725	—
Building.....	218,951	216,767	2-1/2%
Computer.....	745,500	745,500	(See below)
Deposit on second computer (see below).....	143,299	—	—
Furniture and equipment.....	259,714	174,725	10%
Leasehold improvements.....	80,077	38,723	Term of lease
Total cost.....	1,498,266	1,226,440	
Less accumulated depreciation and amortization.....	276,982	106,785	
Net land, building and equipment.....	<u>\$1,221,284</u>	<u>\$1,119,655</u>	

It is the companies' practice to provide for depreciation and amortization under the straight-line method at basically the rates shown above and, in the case of leasehold improvements, over the term of the leases. The computer, purchased during 1971, is to be amortized equally over a period of 60 months to a residual value of \$55,500.

Depreciation and amortization provided for the year is \$170,197 (1971—\$84,851).

On May 1, 1972 the company entered into an agreement to acquire a second G440 computer system at a total cost of \$530,000.

3. Long-term Debt

The long-term debt of the company is as follows:

	1972	1971
10-1/2% mortgage, due in equal blended monthly instalments of \$1,532 through June 1995...	\$161,389	\$163,097
Computer purchase agreement, due in equal monthly instalments of \$10,833 plus sales tax through May 1976.....	502,113	642,168
	<u>663,502</u>	<u>805,265</u>
Less amounts due within one year and included in current liabilities.....	138,988	138,908
Total long-term debt.....	<u>\$524,514</u>	<u>\$666,357</u>

The computer purchase agreement bears interest monthly on the outstanding balance at a rate of 2% above the bank prime interest rate.

Interest expense incurred on long-term debt during the year amounted to \$62,218. (1971—\$39,976).

4. Capital Stock

(a) Increase of Authorized Capital

On June 6, 1972 the company amended its articles of incorporation to increase its authorized capital by the creation of 300,000 preference shares with a \$5.00 par value each, issuable in series.

(b) Summary of Capital Stock Transactions

A recap of the transactions in capital stock during the year is as follows:

	Common Shares		Preference Shares	
	Issued	Amount	Issued	Amount
Balance September 30, 1971....	631,154	\$1,694,228	—	\$ —
Conversion of shareholders' notes.....	18,654	65,289	—	—
Public offering.....	40,000	160,000	140,000	700,000
Other issue.....	10,000	35,000	—	—
Balance September 30, 1972....	<u>699,808</u>	<u>\$1,954,517</u>	<u>140,000</u>	<u>\$700,000</u>

Notes Payable to Shareholders

In 1971 the company issued two promissory notes for \$30,000 each to shareholders. These notes carried with them the provision that if unpaid by December 16, 1971 the principal balance, plus accrued interest (1% above the bank prime interest rate), would be automatically converted into fully paid and non-assessable common shares in the capital of the company at the price of \$3.50 per share.

Notes to the consolidated financial statements continued:

On December 16, 1971 the Company elected not to repay these notes and consequently, these notes, including accrued interest of \$5,289, were automatically converted into 18,654 common shares for a total consideration of \$65,289.

Public Offering

During the year the company made a public offering which resulted in:

- (i) The issuance of 140,000 7-1/2% cumulative, redeemable, convertible preference shares, Series A and 35,000 common shares without par value for cash considerations of \$700,000 and \$140,000, respectively, and
- (ii) The issuance of a total of 5,000 common shares, valued at \$20,000, to two shareholders as consideration for certain commitments which they have given to the company pursuant to an agreement dated as of May 11, 1972 relating to the issue of the shares described in item (i) above.

The Series A preference shares are redeemable at the amount paid up thereon plus unpaid cumulative dividends and a decreasing premium ranging from 7% to 1% depending upon when called for redemption between May 31, 1974 and May 31, 1978. Such shares are convertible, prior to redemption, into common shares of the company on a one-for-one basis with provision for adjustment of the conversion factor, in certain events, to May 31, 1982.

The share issue expense relative to the public offering amounted to \$111,141 and has been charged directly to deficit.

Other Issue

Prior to the public offering the company issued 10,000 common shares for \$35,000.

(c) Stock Options and Warrants

As partial consideration given under several agreements entered into and to benefit its employees, the company has granted stock options and warrants. Details of the stock options and warrants outstanding:

Number of Shares	Warrant or Option Price	Expiry Date
1,000	\$ 7.00	October 1, 1972
4,000	12.50	January 31, 1973
20,000	5.00	June 30, 1973
24,000	15.00	December 31, 1974

In addition to the above as part of the consideration for the purchase of the outstanding shares in National Library Resources Limited the company has agreed to issue a maximum of 6,379 common shares at \$4.00 per share depending on the subsidiary's profits for the years ended September 30, 1973 and September 30, 1974.

These options expire in 1973 and 1974, 60 days after receipt of the audited financial statements of National Library Resources Limited.

5. Income Taxes

The companies have tax losses available for reduction of taxable income in future years aggregating \$204,900. These losses expire as follows:

Amount	Date
\$ 3,100	September 30, 1974
147,000	September 30, 1975
16,600	September 30, 1976
38,200	September 30, 1977
<u>\$204,900</u>	

The undepreciated capital cost of building and equipment, for income tax purposes, exceeds the net book value by \$282,200 as at September 30, 1972. This excess is also available for reduction of future taxable income.

6. Earnings per Share

Earnings per share have been calculated using the weighted average number of shares outstanding during the year and after deducting cumulative dividends on preference shares.

	Earnings Per Share	
	1972	1971
Income (Loss) Before Extraordinary Credits.....	\$.05	\$(.01)
Net Income For The Year.....	\$.15	\$.03

Conversion of the preference shares, exercise of the options and warrants and the adjustments to income resulting from these items do not cause a dilution in the earnings per share.

7. Lease Agreements

The companies carry on part of their operations in leased premises, utilizing, to some extent, leased equipment, and under the terms of these arrangements are committed to annual rentals of approximately \$135,000 to 1978.

8. Remuneration of Directors and Senior Officers

Remuneration of senior officers, as defined by The Business Corporations Act, (Ontario), for the current year amounted to \$99,500 (1971—\$86,300). No remuneration was paid to the directors of the Company as such.

9. Pending Legal Proceedings

An action was instituted in the Supreme Court of Ontario against the company on April 12, 1972 by a former employee of the company alleging that he was wrongfully dismissed from his employment by the company and claiming damages. As the company denies the allegation and is defending this action, no provision has been made in the accompanying financial statements for any damages which the company may incur as a result of this claim.

10. Comparative Figures

Certain 1971 figures in the accompanying financial statements have been reclassified to conform to the 1972 presentation.



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